

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)

YEAR ENDED JUNE 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

August 31, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan County Intermediate School District, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Allegan County Intermediate School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan County Intermediate School District as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
Allegan County Intermediate School District

August 31, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2006, on our consideration of Allegan County Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through xii and 21 through 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Allegan County Intermediate School District's basic financial statements. The additional information on pages 26 and 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mamey, Costeniser & Ellis, P.C.".

Certified Public Accountants

**Allegan County Intermediate School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

As management of the Allegan County Intermediate School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenue and expenditures by program.

Financial Highlights

Our financial statements provide these insights into the results of this year's operations.

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$9,475,329 (*net assets*). Of this amount, \$4,605,942 (*unrestricted net assets*) may be used to meet the District's ongoing obligations for general district programs.
- The District's total net assets increased by \$176,719.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,613,866, an increase of \$118,254 in comparison with the prior year.
- At the end of the current fiscal year, the aggregated fund balances for the District's operating funds (general fund, special education fund, and technical education fund) was \$4,613,866 or 20.4% of the total expenditures of these operating funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the District include instruction, support services, community service and transfers to locals and other services. The District has no business-type activities as of and for the year ended June 30, 2006.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental fund type category.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains numerous governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special education fund, career technical education fund, and cooperative programming fund, each of which are considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts annual appropriated budgets for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 3 and 4 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 6 through 19 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary information for the District's major funds. Required supplementary information can be found on pages 21 through 24 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the supplementary information. Combining fund statements can be found on pages 26 through 27 of this report.

Our auditor has provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Additional Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the other parts in the financial section.

Government-wide Financial Analysis

The District's net assets were \$9,475,329 at June 30, 2006. Of this amount, \$4,605,942 was unrestricted, an increase of \$138,433 from last fiscal year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations.

The following table shows the District's net assets in 2006 and 2005.

District's Net Assets

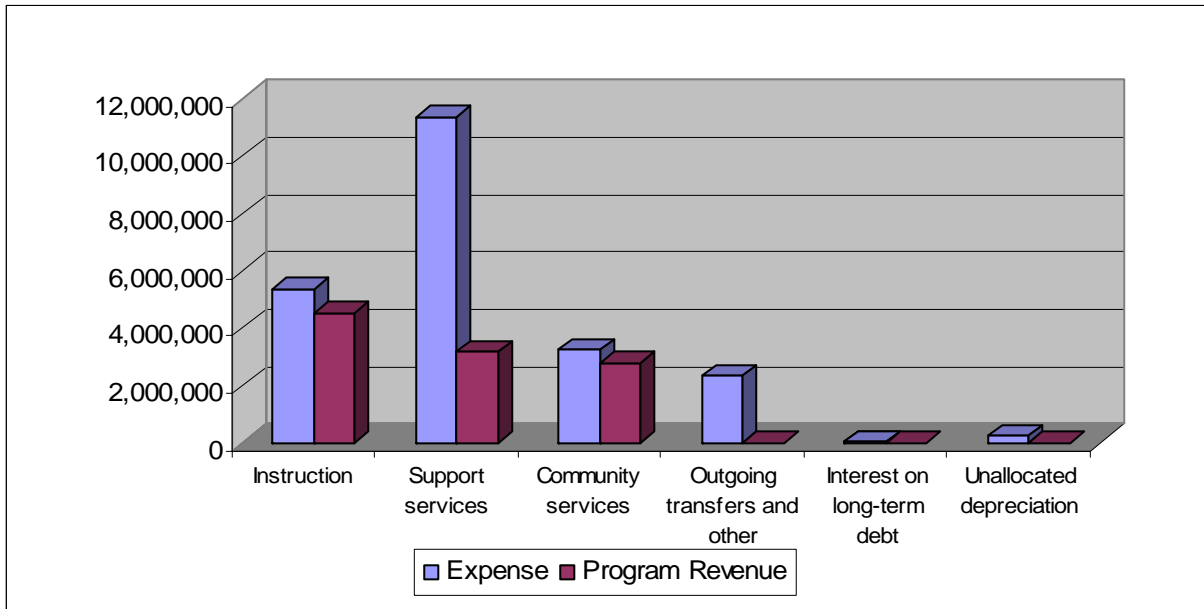
Allegan County Intermediate School District		
	2006	2005
Current assets	\$ 7,079,017	\$ 7,340,206
Noncurrent assets	5,332,346	5,438,350
Total Assets	12,411,363	12,778,556
Current liabilities	2,564,541	2,942,697
Noncurrent liabilities	371,493	537,249
Total Liabilities	2,936,034	3,479,946
Net Assets:		
Invested in capital assets, net of related debt	4,869,387	4,831,101
Unrestricted	4,605,942	4,467,509
Total Net Assets	\$ 9,475,329	\$ 9,298,610

**Allegan County Intermediate School District
District's Changes in Net Assets**

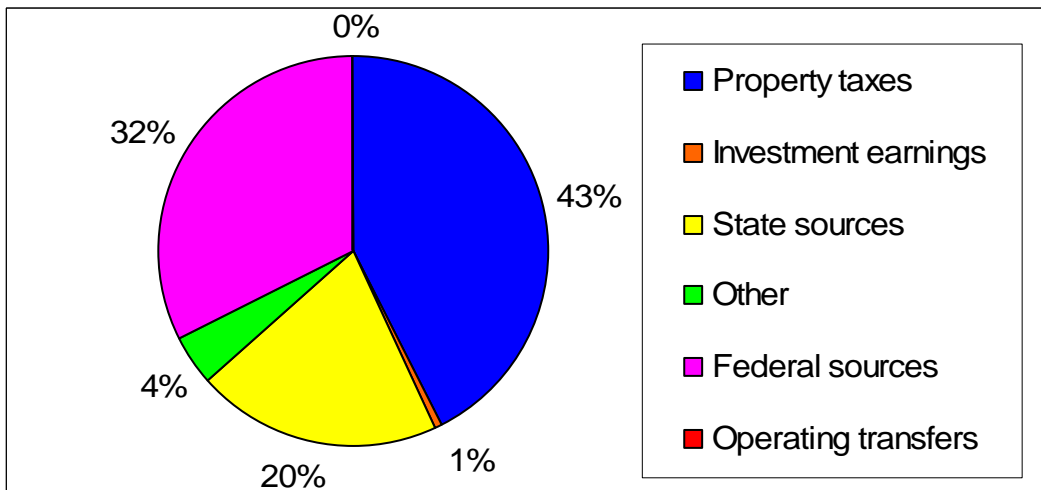
	Governmental Activities	
	2006	2005
Revenue:		
Program revenue:		
Charges for services	\$ 244,323	\$ 212,258
Operating grants	10,240,690	9,913,467
General revenue:		
Property taxes, levied for general purposes	9,626,523	9,130,508
Investment earnings	168,046	71,575
State sources	1,744,679	1,310,846
Other	700,509	1,253,704
Total Revenue	22,724,770	21,892,358
Expenses:		
Instruction	5,377,587	5,428,837
Supporting services	11,382,712	10,942,874
Community services	3,231,220	2,979,745
Outgoing transfers and other	2,309,414	2,710,591
Interest on long-term debt	24,831	29,455
Unallocated depreciation	222,287	226,193
Total Expenses	22,548,051	22,317,695
Increase (decrease) in net assets	176,719	(425,337)
Net assets, beginning of year	9,298,610	9,723,947
Net assets, end of year	\$ 9,475,329	\$ 9,298,610

Governmental Activities. Net assets increased \$176,719. Key elements of this increase was because program revenue from property taxes and state aid increased greater then program and support expenditures.

**Expenses and Program Revenues – Governmental Activities
Year ended June 30, 2006**



**Revenues by Source – District Activities
Year ended June 30, 2006**



Major Governmental Funds Budgeting and Operating Highlights

The District's budgets are prepared according to Michigan law. The most significant budgeted funds are the general fund, special education fund, technical education fund, and cooperative programming fund.

During the fiscal year ended June 30, 2006, the District amended the budgets of these major governmental funds three times.

General Fund - The general fund actual revenue was \$2.99 million. That amount is above the original budget estimate of \$2.82 million and below the final budget amendment of \$3.00 million. The variance between the actual revenue and final budget was the result of local and federal funds that were anticipated in 2005-06 but never received. Some of the federal funds will be received in 2006-07.

The actual expenditures of the general fund were \$3.17 million, which is above the original budget of \$3.14 million and below the final amendment of \$3.19 million. The primary variance was due to \$18,123 in instructional costs that were budgeted but never spent. The overall variance, .6%, is below what could reasonably be expected.

The general fund had total revenues of \$2.99 million and total expenditures of \$3.17 million with an ending fund balance of \$1.70 million.

Special Education Fund - The special education fund actual revenue was \$12.05 million. That amount is above the original budget of \$11.97 million and below the final amendment of \$12.2 million. The variance was the result of Medicaid receipts that were budgeted but never received. These funds will be received next fiscal year. A small portion of Medicaid is retained by the ISD, while a large portion is distributed to the local districts.

The actual expenditures of the special education fund were \$11.74 million, which is above the original budget of \$11.37 million and below the final amendment of \$12.04 million. The variance was the result of Medicaid funds, as outlined above, and the over budgeting of salaries in general and school administration.

The special education fund had total revenue of \$12.05 million and total expenditures of \$11.74 million with an ending fund balance of \$1.57 million.

Technical Education Fund - The technical education fund actual revenue was \$4.65 million. That amount is above the original budget of \$4.53 million and final amendment of \$4.64 million.

The actual expenditures were \$4.51 million, which is above the original budget of \$4.31 million and below the final amendment of \$4.68 million. The variance was due to lower than anticipated motor cycle program expenditures and instructional costs.

The technical education fund had total revenue of \$4.65 million and total expenditures of \$4.51 million with an ending fund balance of \$1.33 million.

Cooperative Programming Fund - The cooperative programming fund actual revenue was \$2.81 million. That amount is below the final amendment of \$2.87 million and above the original budget estimate of \$2.22 million. The variance was the result of grant money that was not fully expended at fiscal year end. The grant revenue will be deferred to the next fiscal year.

The actual expenditures of the cooperative programming fund were \$2.81 million, which is below the final budget amendment of \$2.87 million and above the original budget of \$2.22 million. The variance was due to the anticipation of fully expending the grant revenue. Expenditures will be incurred in the next fiscal year.

The cooperative programming budget does not carry a fund balance.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the District’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a district’s net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance and total fund balance of the general fund was \$1,703,065. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 51.1% of total general fund expenditures and operating transfers out.

The fund balance of the District’s general fund decreased by \$337,902 during the current fiscal year. The largest revenue source in this fund is state revenue which includes state aid. Expenditures consist primarily of costs associated with supporting early education, learning resources, and a portion of the executive administration and fiscal services of the District.

The special education fund had a total fund balance of \$1,572,662, which increased \$314,811 from the prior year. These resources are restricted for special education programs administered by the District and transfers to local districts for special education programs. The largest portion of this funds revenues come from property taxes while the largest expenditures are for the programs at the Development Center and pupil support services to the local districts. Unreserved fund balance and total fund balance represent approximately 13.3% of total special education fund expenditures.

The technical education fund has a total fund balance of \$1,338,139, which increased \$141,345 from the prior year. These resources are restricted for technical education purposes. The largest portion of this funds revenues come from property taxes while the expenditures are for the programs at the Technical Center.

The cooperative programming fund does not have a fund balance. The largest portion of this fund’s revenue comes from federal sources.

Capital Asset and Debt Administration

Capital Assets – At the end of fiscal year 2006, the District had \$9.81 million invested in land, buildings, and office and instructional equipment. Of this amount, \$4.48 million in depreciation has been taken over the years. The District has net capital assets of \$5.33 million.

District's Capital Assets
(Net of depreciation)
June 30, 2006

	2006	2005
Land	\$ 391,509	\$ 391,509
Buildings and improvements	7,917,193	7,859,261
Office and instructional equipment	1,506,166	1,462,880
Subtotal	9,814,868	9,713,650
Accumulated depreciation	4,482,522	4,275,300
Total	\$ 5,332,346	\$ 5,438,350

Additional information on the District's capital assets can be found in Note 4 of this report.

Long-term Debt- at the end of the current fiscal year, the District had a total bonded debt outstanding of \$462,959. Of this balance, \$132,959 is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitation, and is payable solely from state aid payments from the State of Michigan. The remaining balance of \$330,000 represents general obligation bonds of the District.

The District's total debt decreased by \$144,290 during the current fiscal year, with no new debt issuances. Additional information on the District's long-term debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budget

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future.

The Senate and House Fiscal Agencies recently released a report that State Aid revenue collections were below anticipated amounts. If in fact the State Aid budget finishes in a deficit, there is the possibility of a proration of state aid. State aid represents 20% of the Districts revenue.

The District has lost \$544,034 in fund balance over the past three years. The three major funds are projected to lose a combined \$217,757 in 2006-07. If this pattern should continue, the District will be forced to reduce expenditures by cutting services, search for new revenue sources, and for the first time in many years, borrow money for short-term cash flow purposes.

The Michigan Public School Employees Retirement System contribution increased to 17.74% this year, from 16.34% last year, a percentage increase of 8.5%. The rate has continued to increase at a 6-10% rate each year and shows no signs of slowing down. The stock market and increased health insurance costs have caused these increases. These enormous increases will further erode the financial stability of the District unless changes are made in the retirement system or employee health insurance program.

Although the District faces the above mentioned challenges, it remains in good financial shape. The 20.4% fund balance provides safety against economic down turns and provides funds to start new programs and support current programs and services.

Requests for information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Mike Hagerty, Assistant Superintendent for Non Instructional Services, Allegan County ISD, 310 Thomas St., Allegan, MI 49010.

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash and investments	\$ 4,896,107
Receivables:	
Accounts receivable	222,785
Taxes receivable	213,391
Other governmental units	1,480,908
Inventory	<u>265,826</u>
TOTAL CURRENT ASSETS	<u>7,079,017</u>
NONCURRENT ASSETS:	
Capital assets	9,814,868
Less accumulated depreciation	<u>(4,482,522)</u>
TOTAL NONCURRENT ASSETS	<u>5,332,346</u>
TOTAL ASSETS	<u><u>\$ 12,411,363</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 120,986
Accrued salaries and related items	1,520,200
Accrued interest	7,924
Due to other governmental units	409,629
Deferred revenue	414,336
Current portion of long-term obligations	<u>91,466</u>
TOTAL CURRENT LIABILITIES	2,564,541
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	<u>371,493</u>
TOTAL LIABILITIES	<u>2,936,034</u>
NET ASSETS:	
Invested in capital assets net of related debt	4,869,387
Unrestricted	<u>4,605,942</u>
TOTAL NET ASSETS	<u>9,475,329</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 12,411,363</u></u>

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 5,377,587	\$ 76,628	\$ 4,463,260	\$ (837,699)
Support services	11,382,712	167,695	2,954,483	(8,260,534)
Community services	3,231,220		2,789,736	(441,484)
Outgoing transfers and other	2,309,414			(2,309,414)
Interest on long-term debt	24,831		33,211	8,380
Unallocated depreciation	222,287			(222,287)
Total governmental activities	<u>\$ 22,548,051</u>	<u>\$ 244,323</u>	<u>\$ 10,240,690</u>	(12,063,038)
General revenues:				
Property taxes, levied for general purposes				270,543
Property taxes, levied for special education				5,906,053
Property taxes, levied for technical education				3,449,927
Interest earnings				168,046
State sources				1,744,679
Other				700,509
Total general revenues				<u>12,239,757</u>
CHANGE IN NET ASSETS				176,719
NET ASSETS, beginning of year				<u>9,298,610</u>
NET ASSETS, end of year				<u><u>\$ 9,475,329</u></u>

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

		Special Revenue				Other nonmajor governmental funds	Total governmental funds
		General fund	Special education fund	Technical education fund	Cooperative programming fund		
ASSETS							
ASSETS:							
Cash and investments	\$1,904,911	\$1,796,553	\$1,187,844	\$ 6,799	\$	\$	4,896,107
Receivables:							
Accounts receivable	27,332	177,693	12,828	4,932			222,785
Taxes receivable	5,995	130,964	76,432				213,391
Due from other funds	138,195	393,253			5,674		537,122
Other governmental units	273,474	350,075	175,606	661,559	20,194		1,480,908
Inventory			265,826				265,826
	<u>\$2,349,907</u>	<u>\$2,848,538</u>	<u>\$1,718,536</u>	<u>\$ 673,290</u>	<u>\$ 25,868</u>	<u>\$</u>	<u>7,616,139</u>

LIABILITIES AND FUND BALANCES

LIABILITIES:						
Accounts payable	\$ 19,579	\$ 17,612	\$ 18,882	\$ 64,913	\$	\$ 120,986
Accrued salaries and related items	222,238	918,922	325,112	48,534	5,394	1,520,200
Due to other funds			34,822	502,300		537,122
Due to other governmental units	12,195	339,342	1,581	56,511		409,629
Deferred revenue	392,830			1,032	20,474	414,336
TOTAL LIABILITIES	646,842	1,275,876	380,397	673,290	25,868	3,002,273

		Special Revenue				
	General fund	Special education fund	Technical education fund	Cooperative programming fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:						
Unreserved:						
Designated for subsequent years expenditures	\$ 370,691	\$	\$	\$	\$	\$ 370,691
Undesignated	1,332,374	1,572,662	1,338,139			4,243,175
TOTAL FUND BALANCES	1,703,065	1,572,662	1,338,139			4,613,866
	\$2,349,907	\$2,848,538	\$1,718,536	\$ 673,290	\$ 25,868	\$ 7,616,139

Total Governmental Fund Balances

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is

Accumulated depreciation is

\$ 9,814,868
(4,482,522)

5,332,346

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Bonds payable

(462,959)

Accrued interest is not included as a liability in government funds, it is recorded when paid

(7,924)

Net assets of governmental activities

\$ 9,475,329

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Special Revenue				Other nonmajor governmental funds	Total governmental funds
	General fund	Special education fund	Technical education fund	Cooperative programming fund		
REVENUES:						
Local sources:						
Property taxes	\$ 270,543	\$ 5,911,433	\$ 3,449,927	\$	\$	\$ 9,631,903
Interest	57,339	62,499	46,470		1,738	168,046
Other	316,505	294,737	308,250	23,033	2,307	944,832
Total local sources	644,387	6,268,669	3,804,647	23,033	4,045	10,744,781
State sources	1,878,128	1,899,534	591,456	21,289	209,115	4,599,522
Federal sources	470,055	3,889,039	258,306	2,768,447		7,385,847
Total revenues	2,992,570	12,057,242	4,654,409	2,812,769	213,160	22,730,150
EXPENDITURES:						
Instruction:						
Added needs		3,263,261	2,132,238			5,395,499
Support services:						
Pupil		3,171,689	531,750			3,703,439
Instruction	2,005,588	2,444	94,749			2,102,781
General administration	563,265	1,470,042	190,553			2,223,860
School administration		484,870	600,890			1,085,760

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances total governmental funds	\$ 118,254
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(222,287)
Capital outlay	118,896
Loss on sale of capital assets	(2,613)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	33,483
Accrued interest payable end of the year	(7,924)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

144,290

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year	(5,380)
Deferred revenue end of the year	<div style="border-top: 1px solid black; width: 100%;"></div>

Change in net assets of governmental activities	\$ 176,719 <div style="border-top: 3px double black; width: 100%;"></div>
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**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Allegan County Intermediate School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Allegan County Intermediate School District (the "District") is governed by the Allegan County Intermediate School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Nos. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, property taxes and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary administrative fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *special education special revenue fund* which accounts for special education programs.

The *technical education special revenue fund* which accounts for technical education programs.

The *cooperative programming special revenue fund* which accounts for cooperative programs.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Concluded)

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its math and science program in a special revenue fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

Modified Accrual Method (Concluded)

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund	0.1160
Special revenue funds:	
Special education fund	2.5346
Technical education fund	1.4792

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption and a residential residence and property for resale, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

6. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. Annual appropriations lapse at year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue and debt service funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool - MICMS	\$ 1,262	0.0027	AAAm	0.107%
MILAF External Investment pool -MIMAX	415,578	0.0027	AAAm	35.193%
MILAF + TERM A	<u>764,018</u>	0.0904	AAA	<u>64.700%</u>
Total fair value	<u><u>\$ 1,180,858</u></u>			<u><u>100%</u></u>
Portfolio weighted average maturity		<u><u>0.0595</u></u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds, which included money market funds. The pooled investment funds utilized by the District are the Michigan Investment Liquid Asset Funds (MILAF). These are external pooled investment funds of "qualified" investments for Michigan school districts. MILAF is not regulated nor are they registered with the SEC. MILAF reports as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$4,207,232 of the District's bank balance of \$4,503,839 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount after recording outstanding checks and other items is \$3,715,249.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts as previously reported in Note 3:

Deposits	\$ 3,715,249
Investments	<u>1,180,858</u>
	<u><u>\$ 4,896,107</u></u>

The above amounts are reported in the financial statements as follows:

Cash and Investments - District wide	<u><u>\$ 4,896,107</u></u>
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NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Assets not being depreciated - land	<u>\$ 391,509</u>	<u>\$</u>	<u>\$</u>	<u>\$ 391,509</u>
Other capital assets:				
Buildings and improvements	7,859,261	57,932		7,917,193
Office and instructional equipment	<u>1,462,880</u>	<u>60,964</u>	<u>17,678</u>	<u>1,506,166</u>
Subtotal	<u>9,322,141</u>	<u>118,896</u>	<u>17,678</u>	<u>9,423,359</u>
Accumulated depreciation:				
Buildings and improvements	3,381,912	167,596		3,549,508
Office and instructional equipment	<u>893,388</u>	<u>54,691</u>	<u>15,065</u>	<u>933,014</u>
Total accumulated depreciation	<u>4,275,300</u>	<u>222,287</u>	<u>15,065</u>	<u>4,482,522</u>
Net other capital assets	<u>5,046,841</u>	<u>(103,391)</u>	<u>2,613</u>	<u>4,940,837</u>
Net capital assets	<u><u>\$ 5,438,350</u></u>	<u><u>\$ (103,391)</u></u>	<u><u>\$ 2,613</u></u>	<u><u>\$ 5,332,346</u></u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$222,287. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT

The District issues bonds to provide funds for the acquisition, construction and improvement of major facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

2001 general obligation - limited tax bonds (face amount \$650,000) due in annual installments ranging from \$55,000 to \$80,000 through November 1, 2011, with interest at 4.1% to 4.6% \$ 330,000

1998 limited obligation bonds (Durant bonds) (face amount \$324,401) due in annual installments ranging from \$16,446 to \$21,744 through May 15, 2013 with interest at 4.76%. Certain state aid payments are security used to pay these bonds. 132,959

Total general long-term debt \$ 462,959

The annual requirements to amortize long-term obligations as of June 30, 2006, including interest of \$68,030 are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 91,446	\$ 20,639	\$ 112,085
2008	97,233	16,744	113,977
2009	73,054	12,563	85,617
2010	78,913	9,297	88,210
2011	79,813	5,727	85,540
2012 through 2013	<u>42,500</u>	<u>3,060</u>	<u>45,560</u>
	<u><u>\$ 462,959</u></u>	<u><u>\$ 68,030</u></u>	<u><u>\$ 530,989</u></u>

At June 30, 2006, net assets of \$0 are available in the debt service fund to service the general obligation debt.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT (Concluded)

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2006.

Long-term debt, June 30, 2005	\$ 607,249
Deductions:	
Bond principal payments	<u>144,290</u>
Long-term debt, June 30, 2006	462,959
Less current portion	<u>(91,466)</u>
	<u><u>\$ 371,493</u></u>

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Amounts due from and due to other funds at June 30, 2006 are as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ 138,195	\$
Special revenue funds:		
Special education fund	393,253	
Cooperative programming fund		502,300
Technical education fund		34,822
Math/science fund	<u>5,674</u>	
	<u><u>\$ 537,122</u></u>	<u><u>\$ 537,122</u></u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 14.78% through September 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2006, 2005 and 2004 were \$1,578,341, \$1,416,811 and \$1,205,999, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

The District is self insured for dental and vision coverage. The current year expense for June 30, 2006 was \$214,073. A liability for incurred and unreported benefits is not considered material.

NOTE 9 - TRANSFERS

The general fund transferred \$87,179 to the debt service fund and \$72,992 to the special revenue math & science fund and the capital projects fund transferred \$1,463 to the general fund. All transfers were to assist in operations or refund amount previously transferred.

REQUIRED SUPPLEMENTARY INFORMATION

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local sources	\$ 704,576	\$ 677,266	\$ 644,387	\$ (32,879)
State sources	1,664,819	1,847,581	1,878,128	30,547
Federal sources	456,444	480,237	470,055	(10,182)
Total revenues	2,825,839	3,005,084	2,992,570	(12,514)
EXPENDITURES:				
Support services:				
Instruction	1,944,500	2,023,711	2,005,588	18,123
General administration	434,280	565,306	563,265	2,041
Business	228,203	210,185	209,009	1,176
Operation and maintenance	80,937	101,836	100,574	1,262
Community services	190,275	156,684	162,920	(6,236)
Outgoing transfers and other	268,983	133,287	130,408	2,879
Total expenditures	3,147,178	3,191,009	3,171,764	19,245
EXCESS DEFICIENCY OF REVENUES OVER (UNDER) EXPENDITURES	(321,339)	(185,925)	(179,194)	6,731
OTHER FINANCING SOURCES (USES):				
Operating transfers in			1,463	1,463
Operating transfers out		(152,583)	(160,171)	(7,588)
Total other financing uses		(152,583)	(158,708)	(6,125)
NET CHANGE IN FUND BALANCE	\$ (321,339)	\$ (338,508)	(337,902)	\$ 606
FUND BALANCE:				
Beginning of year			2,040,967	
End of year			<u>\$ 1,703,065</u>	

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local sources	\$ 6,282,663	\$ 6,261,149	\$ 6,268,669	\$ 7,520
State sources	1,886,984	1,899,466	1,899,534	68
Federal sources	3,808,204	4,044,052	3,889,039	(155,013)
Total revenues	<u>11,977,851</u>	<u>12,204,667</u>	<u>12,057,242</u>	<u>(147,425)</u>
EXPENDITURES:				
Instruction:				
Added needs	3,001,239	3,267,567	3,263,261	4,306
Support services:				
Pupil	3,104,794	3,131,656	3,171,689	(40,033)
Instruction	14,500	3,637	2,444	1,193
General administration	1,450,609	1,526,202	1,470,042	56,160
School administration	422,502	557,980	484,870	73,110
Business	207,028	152,612	167,195	(14,583)
Operation and maintenance	435,842	476,241	485,645	(9,404)
Transportation	275,479	339,671	339,807	(136)
Technology services	145,544	180,779	178,472	2,307
Outgoing transfers and other	2,317,959	2,408,762	2,179,006	229,756
Total expenditures	<u>11,375,496</u>	<u>12,045,107</u>	<u>11,742,431</u>	<u>302,676</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ 602,355</u></u>	<u><u>\$ 159,560</u></u>	314,811	<u><u>\$ 155,251</u></u>
FUND BALANCE:				
Beginning of year			<u>1,257,851</u>	
End of year			<u><u>\$ 1,572,662</u></u>	

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
TECHNICAL EDUCATION FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local sources	\$ 3,721,059	\$ 3,724,825	\$3,804,647	\$ 79,822
State sources	564,141	544,176	591,456	47,280
Federal sources	247,983	378,062	258,306	(119,756)
Total revenues	4,533,183	4,647,063	4,654,409	7,346
EXPENDITURES:				
Instruction:				
Added needs	2,137,615	2,160,913	2,132,238	28,675
Support services:				
Pupil	540,740	531,011	531,750	(739)
Instruction	99,218	93,660	94,749	(1,089)
General administration	189,203	186,711	190,553	(3,842)
School administration	631,240	617,876	600,890	16,986
Business	199,974	206,751	205,488	1,263
Operation and maintenance	411,293	436,670	435,187	1,483
Community services	101,096	392,119	264,277	127,842
Capital outlay		59,157	57,932	1,225
Total expenditures	4,310,379	4,684,868	4,513,064	171,804
NET CHANGE IN FUND BALANCE	\$ 222,804	\$ (37,805)	141,345	\$ 179,150
FUND BALANCE:				
Beginning of year			1,196,794	
End of year			\$1,338,139	

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
COOPERATIVE PROGRAMMING FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local sources	\$	\$	\$ 23,033	\$ 23,033
State sources			21,289	21,289
Federal sources	<u>2,225,319</u>	<u>2,874,022</u>	<u>2,768,447</u>	<u>(105,575)</u>
Total revenues	2,225,319	2,874,022	2,812,769	(61,253)
EXPENDITURES:				
Community services	<u>2,225,319</u>	<u>2,874,022</u>	<u>2,812,769</u>	<u>61,253</u>
NET CHANGE IN FUND BALANCE	<u>\$</u>	<u>\$</u>		<u>\$</u>
FUND BALANCE:				
Beginning of year				
End of year			<u>\$</u>	

ADDITIONAL INFORMATION

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2006**

	Special revenue Math & Science	Debt service	Capital projects	Total nonmajor governmental funds
ASSETS				
ASSETS:				
Receivables:				
Due from other funds	\$ 5,674	\$	\$	\$ 5,674
Other governmental units	20,194			20,194
TOTAL ASSETS	<u>\$ 25,868</u>	<u>\$</u>	<u>\$</u>	<u>\$ 25,868</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accrued salaries and related items	\$ 5,394	\$	\$	\$ 5,394
Deferred revenue	20,474			20,474
TOTAL LIABILITIES	<u>25,868</u>			<u>25,868</u>
FUND BALANCES:				
Unreserved, undesignated				
TOTAL FUND BALANCES				
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 25,868</u>	<u>\$</u>	<u>\$</u>	<u>\$ 25,868</u>

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2006**

	Special revenue Math & Science	Debt service	Capital projects	Total nonmajor governmental funds
REVENUES:				
Local sources:				
Interest	\$	\$	\$ 1,738	\$ 1,738
Other	2,307			2,307
Total local sources	2,307		1,738	4,045
State sources	101,614	107,501		209,115
Total revenues	103,921	107,501	1,738	213,160
EXPENDITURES:				
Support services:				
Math/science program	176,913			176,913
Capital outlay			275	275
Debt service:				
Principal repayment		144,290		144,290
Interest expense		50,390		50,390
Total expenditures	176,913	194,680	275	371,868
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(72,992)	(87,179)	1,463	(158,708)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	72,992	87,179		160,171
Operating transfers out			(1,463)	(1,463)
Total other financing sources (uses)	72,992	87,179	(1,463)	158,708
NET CHANGE IN FUND BALANCES				
FUND BALANCES:				
Beginning of year				
End of year	\$	\$	\$	\$

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT

ADDITIONAL REPORTS REQUIRED BY

OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2006

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Lamonte T. Lator
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Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

August 31, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan County Intermediate School District as of and for the year ended June 30, 2006, which collectively comprise Allegan County Intermediate School District's basic financial statements and have issued our report thereon dated August 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allegan County Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Education
Allegan County Intermediate School District

August 31, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allegan County Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Allegan County Intermediate School District in a separate letter dated August 31, 2006.

This report is intended for the information and use of the board of education, management, U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Mayer, Costeniser & Ellis, P.C.

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

August 31, 2006

Compliance

We have audited the compliance of Allegan County Intermediate School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Allegan County Intermediate School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of Allegan County Intermediate School District's management. Our responsibility is to express an opinion on Allegan County Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Allegan County Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Allegan County Intermediate School District's compliance with those requirements.

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

August 31, 2006

In our opinion, Allegan County Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Allegan County Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Allegan County Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Allegan County Intermediate School District as of for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Allegan County Intermediate School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 M. Costen

Certified Public Accountants

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2005	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2006
<u>U.S. Department of Labor:</u>								
Passed through Area Community Services Employment and Training Council:								
Employment Services	17.207	ES-135-04	\$ 706,583	\$ 79,422	\$ 706,583	\$ 79,422	\$ -	\$ -
		ES-135-05	494,393	-	-	580,280	694,287	114,007
			<u>1,200,976</u>	<u>79,422</u>	<u>706,583</u>	<u>659,702</u>	<u>694,287</u>	<u>114,007</u>
Workforce Investment Act Cluster:								
Workforce Investment Act Adult Program	17.258	AC-142-04	46,707	16,976	46,701	16,976	-	-
		AC-142-05	51,007	-	-	36,273	50,272	13,999
			<u>97,714</u>	<u>16,976</u>	<u>46,701</u>	<u>53,249</u>	<u>50,272</u>	<u>13,999</u>
Workforce Investment Act Youth Activities								
	17.259	AC-053-04	316,000	152,515	301,786	152,515	-	-
		AC-053-05	467,714	-	-	271,840	424,705	152,865
			<u>783,714</u>	<u>152,515</u>	<u>301,786</u>	<u>424,355</u>	<u>424,705</u>	<u>152,865</u>
Workforce Investment Act Dislocated Workers								
	17.260	AC-132-04	534,682	141,254	541,406	141,254	-	-
		AC-132-05	562,163	-	-	419,905	562,245	142,340
		AC-144-04	56,508	22,400	56,470	22,400	-	-
		AC-144-05	67,208	-	-	53,795	67,208	13,413
			<u>1,220,561</u>	<u>163,654</u>	<u>597,876</u>	<u>637,354</u>	<u>629,453</u>	<u>155,753</u>
Total Workforce Investment Act Cluster			<u>2,101,989</u>	<u>333,145</u>	<u>946,363</u>	<u>1,114,958</u>	<u>1,104,430</u>	<u>322,617</u>

The accompanying notes are an integral part of this schedule.

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2005	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2006
<u>U.S. Department of Labor (Concluded):</u>								
Passed through Area Community Services Employment and Training Council (Concluded):								
Incumbent Worker Program	17.267	IW-03-03	\$ 51,429	\$ 16,889	\$ 49,076	\$ 16,889	\$ -	\$ -
Incumbent Worker Program		IW-03-04	98,492			83,344	83,344	-
Incumbent Worker Program		IW-03-05	49,423	-	-	35,881	49,071	13,190
			199,344	16,889	49,076	136,114	132,415	13,190
Total U.S. Department of Labor			3,502,309	429,456	1,702,022	1,910,774	1,931,132	449,814
<u>U.S. Department of Education:</u>								
Passed through State Department of Education:								
Title I Part D	84.013	051700-0405	49,643	49,643	49,643	49,643	-	-
		061700-0506	51,833	-	-	51,833	51,833	-
			101,476	49,643	49,643	101,476	51,833	-
Title II	84.367	050520-0506	1,252	-	-	1,252	1,252	-
Title V	84.298	060250-0506	2,055	-	-	2,055	2,055	-
Special Education Cluster:								
IDEA	84.027	050450-0405	2,595,976	19,939	2,595,976	19,939	-	-
		060450-0506	2,699,838	-	-	2,699,838	2,699,838	-
		050480-EOSD	50,000	-	-	50,000	50,000	-
		050490-TS	70,000	-	-	70,000	70,000	-
			5,415,814	19,939	2,595,976	2,839,777	2,819,838	-

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2005	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2006
<u>U.S. Department of Education (Concluded):</u>								
Passed through State Department of Education (Concluded):								
State TMT Grant	84.027	N/A	\$ 4,596	\$ 4,596	\$ 4,596	\$ 4,596	\$ -	\$ -
Total CFDA # 84.027			5,420,410	24,535	2,600,572	2,844,373	2,819,838	-
Special Education grants to states	84.173	060460-0506	96,449	-	-	96,449	96,449	-
Total Special Education Cluster			5,516,859	24,535	2,600,572	2,940,822	2,916,287	-
Vocational Education	84.048	9213	146,045	-	-	146,045	146,045	-
Infants/Toddlers	84.181	061340-190	182,564	-	-	182,564	182,564	-
Even Start Early Education	84.213	060390-B0622CES	225,000	-	-	225,000	225,000	-
Vocational Education	84.243	2713-0405	35,750	35,587	35,587	35,587	-	-
		2713-0506	37,324	-	-	-	37,284	37,284
			73,074	35,587	35,587	35,587	37,284	37,284
Passed through Michigan Jobs Commission: Rehabilitation Services	84.126	N/A	194,359	23,609	151,840	40,400	30,000	13,209
Total U.S. Department of Education			6,442,684	133,374	2,837,642	3,675,201	3,592,320	50,493

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2005	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2006
<u>U.S. Department of Health and Human Services:</u>								
Passed through Family Independence Agency								
0-3 Secondary Prevention	93.556	CTFPR05-03001	\$ 24,832	\$ -	\$ 19,687	\$ 5,145	\$ 5,145	\$ -
		CTFPR06-03001	21,760	-	-	21,760	21,760	-
			46,592	-	19,687	26,905	26,905	-
Passed through the Area Community Services Employment and Training Council:								
Work First	93.558	WF-010-04	827,006	195,702	600,790	397,053	201,351	-
		WF-010-05	827,006	-	-	421,979	595,722	173,743
		FA-032-05	9,300	-	-	3,167	3,884	717
			1,663,312	195,702	600,790	822,199	800,957	174,460
Passed through Family Independence Agency								
Temp. Assist for needy families	93.558	CHPR-02-03001-4	37,600	9,068	37,600	9,068	-	-
		CHPR-02-03001-5	6,259	-	-	6,259	6,259	-
			43,859	9,068	37,600	15,327	6,259	-
0-3 Secondary Prevention	93.558	CFTPR05-03001	127,512	-	101,090	26,422	26,422	-
		CFTPR06-03001	111,738	-	-	111,738	111,738	-
			239,250	-	101,090	138,160	138,160	-
FIA-CAN	93.558	05-03009	35,000	29,451	35,000	29,451	-	-
		06-03001	75,474	-	-	25,735	70,425	44,690
			110,474	29,451	35,000	55,186	70,425	44,690
Total CFDA # 93.558			2,056,895	234,221	774,480	1,030,872	1,015,801	219,150

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>Pass-through number</u>	<u>Award amount</u>	<u>Accrued (deferred) 7/1/2005</u>	<u>Prior year expenditures (memorandum only)</u>	<u>Current year receipts</u>	<u>Current year expenditures</u>	<u>Accrued (deferred) 6/30/2006</u>
<u>U.S. Department of Health and Human Services (Concluded):</u>								
Passed through the Tuscola Intermediate School District:								
Medicaid Health Services	93.778	N/A	\$ 21,251	\$ 2,058	\$ 16,288	\$ 18,250	\$ 21,251	\$ 5,059
Total U.S. Department of Health and Human Services			2,124,738	236,279	810,455	1,076,027	1,063,957	224,209
<u>U.S. Department of Transportation</u>								
Passed through Michigan Department of Education								
Motorcycle safety	20.600	036670/201	98,895	65,398	65,398	98,896	33,498	-
			130,079	-	-	38,778	78,763	39,985
Total U.S. Department of Transportation			228,974	65,398	65,398	137,674	112,261	39,985
<u>U.S. Department of Domestic Preparedness</u>								
Passed through Department of State Police								
Homeland Security	97.004	N/A	81,400	1,522	68,605	1,522	-	-
TOTAL FEDERAL AWARDS			\$ 12,380,105	\$866,029	\$ 5,484,122	\$ 6,801,198	\$ 6,699,670	\$ 764,501

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2006**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Subrecipient award/contract amount</u>	<u>Due to (from) subrecipient July 1, 2005</u>	<u>(Memo only) Subrecipient prior year expenditures</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>	<u>Due to (from) subrecipient June 30, 2006</u>
Employment services:	17.207						
ES-132-05							
Passed through to:							
Fennville Public Schools		\$	\$	\$	\$ 34,000	\$ 34,000	\$
Total employment services passed through to subrecipients		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 34,000</u>	<u>\$ 34,000</u>	<u>\$</u>
WIA summer youth:	17.259						
WIA-053-05							
Passed through to:							
Allegan Public Schools		\$	\$	\$	\$ 11,763	\$ 11,763	\$
Total WIA summer youth passed through to subrecipients		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 11,763</u>	<u>\$ 11,763</u>	<u>\$</u>
WIA dislocated worker:	17.260						
WIA-132-05							
Passed through to:							
Fennville Public Schools		\$	\$	\$	\$ 4,000	\$ 4,000	\$
Total WIA dislocated worker passed through to subrecipients		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$</u>

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2006**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Subrecipient award/contract amount</u>	<u>Due to (from) subrecipient July 1, 2005</u>	<u>(Memo only) Subrecipient prior year expenditures</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>	<u>Due to (from) subrecipient June 30, 2006</u>
Transition services: 060490-TS	84.027						
Passed through to:							
Allegan Public Schools		\$	\$	\$	\$ 631	\$ 631	\$
Hopkins Public Schools					631	631	
Martin Public Schools					367	367	
Otsego Public Schools					397	397	
Plainwell Public Schools					2,255	2,255	
Wayland Public Schools					610	610	
Total transition services passed through to subrecipients		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 4,891</u>	<u>\$ 4,891</u>	<u>\$</u>
Vocational education: 4003	84.048						
Otsego Public Schools		\$	\$	\$	\$ 1,699	\$ 1,699	\$
Total vocational education passed through to subrecipients		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,699</u>	<u>\$ 1,699</u>	<u>\$</u>
PL-94-142 Preschool Incentive: 060460/1	84.173						
Passed through to:							
Allegan Public Schools		\$	\$	\$	\$ 10,182	\$ 10,182	\$
Fennville Public Schools					10,853	10,853	
Hopkins Public Schools					8,225	8,225	
Otsego Public Schools					5,565	5,565	
Plainwell Public Schools					11,524	11,524	
Wayland Public Schools					19,410	19,410	
Total PL-94-142 Preschool Incentive passed through to subrecipients		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 65,759</u>	<u>\$ 65,759</u>	<u>\$</u>

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2006**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Subrecipient award/contract amount</u>	<u>Due to (from) subrecipient July 1, 2005</u>	<u>(Memo only) Subrecipient prior year expenditures</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>	<u>Due to (from) subrecipient June 30, 2006</u>
MSA School Based Services:	93.778						
Passed through to:							
Allegan Public Schools		\$	\$	\$	\$ 115,353	\$ 115,353	\$
Fennville Public Schools					32,154	32,154	
Hopkins Public Schools					28,605	28,605	
Martin Public Schools					45,411	45,411	
Ostego Public Schools					81,725	81,725	
Plainwell Public Schools					56,828	56,828	
Wayland Public Schools					179,221	179,221	
Total MSA School Based Services passed through to subrecipients		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 539,297</u>	<u>\$ 539,297</u>	<u>\$</u>

The accompanying notes are an integral part of this schedule.

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

NOTES:

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards includes the federal grant activities of Allegan County Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and reconciles with the amounts in the preparation of the financial statements.
2. CFDA Programs Special Education Cluster 84.027 and 84.173 and the WIA Cluster 17.258, 17.259 and 17.260 were audited as the major programs representing 60% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. The expenditures on the schedule of expenditures of federal awards do not include local match.
5. Expenditures in this schedule have been reconciled with Michigan Department of Education financial reports (DS4044, DS4092A, and other applicable reports).
6. Management has utilized the Michigan Department of Education R7120 Grant Section Auditors Report, in preparing this report.
7. Federal revenue per financial statements \$ 7,385,847

Less:
Federal Medicaid receipts not subject to the Single Audit 686,177

Expenditures per Schedule of Expenditures of Federal Awards \$ 6,699,670
8. Subrecipients - Of the federal expenditures presented in the schedule of expenditures of federal awards, Allegan County Intermediate School District provided federal awards to subrecipients reported in the enclosed schedule of pass through amounts.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditors’ report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported with Section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster
17.258, 17.259 and 17.260	Workforce Investment Act Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

There were no findings for the prior two years.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

August 31, 2006

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

In planning and performing our audit of the financial statements of Allegan County Intermediate School District for the year ended June 30, 2006 we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 31, 2006 on the financial statements of Allegan County Intermediate School District.

Prior Year Comments Resolved:

Year-end Closing Procedures

We noted that appropriate year-end closing procedures are now established and the cut-off for purchases is enforced.

Repeat Comments:

Grant Expenditure Reconciliation

We noted improvement in this area, however, certain grant expenditures are still not reconciled from the general ledger to the close-out reports that are submitted to the granting authorities. Reconciliation of all grant expenditures per the requests done by the grant administrator to the general ledger expense accounts should be done annually, at a minimum, in order to ensure proper reporting to federal, state and local authorities. It would benefit the district to track all requests for reimbursement to the actual receipt in order to ensure that all requested reimbursement amounts were received. At June 30, 2006 and 2005 all reports were reconciled.

Salary Charges

Currently there are many charges for non-salaried items, such as payment to outside contractors for services, coded to salary accounts. Payroll charges are the only transactions that should be coded to the salary accounts. This change in coding will greatly ease the reconciliation process between the quarterly 941 reports and the general ledger, as well as provide a more accurate salary expenses on the general ledger. We noted that the district began correcting things during the 2006 year end and will have this process finalized for the year ended June 30, 2007.

Current Year Comments:

Accounts Receivable Aging

During the course of our audit, we noted that the accounting department does not prepare periodic aging analyses of individual accounts receivable balances. We recommend that the accounts receivable account balances be reconciled monthly to an aged receivables listing. Periodic preparation and review of such an analysis would allow for prompt action on delinquent accounts.

OMB Circular A-87 – Teacher Certifications

OMB Circular A-87 requires that where employees are expected to work solely on a single federal award or cost objective, charges for their salaries must be supported by periodic certifications stating that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least *semi-annually* and be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

During the year ended June 30, 2006, a certification was done in June only. We recommend certifications be signed in January and June. Other semi-annual periods are also permissible. The certifications should state the employee spend 100% of their time on the applicable federal program.

Outstanding Checks

During our cash audit procedures, we noted that the outstanding check list for the operating checking account at June 30, 2006, contained checks dating over two years old. Through discussions with accounting management, it was determined that the status of these “old” outstanding checks had not been investigated or considered by accounting personnel. We recommend that management establish a formal, written policy concerning uncashed checks based on current State escheat laws. Such a policy should specify aging milestones with required actions. For example, this policy might specify that when checks are past 6 months old, they should be investigated and reissued or written off.

Journal Entry Review

Currently there is no review of journal entries done by the finance supervisor. We recommend the adoption of a procedure whereby journal entries will be reviewed by the assistant superintendent or other designated member of management periodically. Tested entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. We also noted that the explanations accompanying the entries were often lacking complete support. All journal entries should be accompanied by full explanation and referenced to adequate supporting data.

Cash Reconciliations

We noted that the checking accounts for Work First is not reconciled throughout the year. The current procedure is to transfer funds to these accounts from the general fund when the balance, which is tracked by the appropriate department, is depleted. Checks are not directly recorded in the general ledger when written, the only entry done occurs when the transfer of funds is made. Reconciliations should be done monthly distributing expenses to the appropriate accounts in order to provide the respective departments accurate expense information.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

The MDE has currently identified violations of the Act which will be enforced to include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the district fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the district's current budget procedures are adequate.

Cash Management

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during FY 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management. We suggest the district request funds on a reimbursement basis in order to ensure compliance with the cash management requirements.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the District. We will have to evaluate the District's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Allegan County Intermediate School District management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mamie Costenaro, E. Ellis, P.C.



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August 31, 2006

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

We have audited the financial statements of Allegan County Intermediate School District for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 7, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally Accepted Accounting Standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Allegan County Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Allegan County Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Allegan County Intermediate School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Allegan County Intermediate School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Allegan County Intermediate School District's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Allegan County Intermediate School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Allegan County Intermediate School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. No estimates are considered sensitive.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Allegan County Intermediate School District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, several of the adjustments we proposed, whether recorded or unrecorded by the Allegan County Intermediate School District, either individually or in the aggregate, indicate matters that could have a significant effect on the Allegan County Intermediate School District's financial reporting process. A total of 51 journal entries were recorded during the audit. All entries have been approved by management.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Allegan County Intermediate School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of education, management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maney, Costeniser & Ellis, P.C.